

0 30424
Q 3611 8



RECEIVED
MAR 25 1992

15
K
92-2270
RECEIVED BY
15-15-W
MAR 31 1992

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

FORM 10-C

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 1991
or

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 33-27746

L.A. ENTERTAINMENT, INC.
(Exact name of registrant as specified in its charter)

Nevada 88-0199674
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

401 East Pine Street, Seattle, Washington 98122
(Address of principal executive offices) (Zip Code)

(310) 277-8942/Attention: Elaine Melnyk

(Former name, former address and former fiscal year,
if changed since last year report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [] No

As of December 31, 1991, there were 40,050,000 shares of Company's \$.001 Par Common Stock outstanding, its only class of Common Stock.

BEST COPY
AVAILABLE

L. A. ENTERTAINMENT, INC.

INDEX

Page No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Balance sheets - December 31, 1991 and March 31, 1991	2
Statements of operations three months ended December 31, 1991 and 1990	4
Statements of operations nine months ended December 31, 1991 and 1990	5
Statements of cash flows - nine months ended December 31, 1991 and 1990	6
Notes to financial statements	8

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of
Operations

9

PART II - OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	12
Item 2. <u>Changes in Securities</u>	12
Item 3. <u>Defaults Upon Senior Securities</u>	12
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	12
Item 5. <u>Other Information</u>	12
Item 6. <u>Exhibits and Reports on Form 8-K</u>	12

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

L.A. ENTERTAINMENT, INC.
BALANCE SHEETS

	ASSETS	UNAUDITED <u>12/31/91</u>	<u>1/31/91</u>
CURRENT:			
Cash		\$13,230	\$11,000
Accounts receivable, less allowance for doubtful accounts, \$5,000		197,893	59,986
Other Receivables (Note 5)		390,000	0
Prepaid Expenses		<u>34,486</u>	<u>18,791</u>
	Total Current Assets	635,609	89,779
RENTAL VIDEOCASSETTE LIBRARY, at cost less accumulated depreciation of \$2,866,827 and \$2,785,124		930,670	923,499
FURNITURE AND EQUIPMENT, net		<u>189,910</u>	<u>267,860</u>
		<u>\$1,756,189</u>	<u>\$1,281,139</u>

"See Accompanying Notes to Financial Statements"

L.A. ENTERTAINMENT, INC.
BALANCE SHEETS
(Concluded)

	<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>UNAUDITED 12/31/91</u>	<u>3/31/91</u>
CURRENT LIABILITIES			
Current portion of notes payable, banks (Note 3)	\$ 4,169	\$ 86,206	
Trade accounts payable	204,533	264,327	
Accrued Expenses	284,851	325,038	
Capital lease obligations, current portion	<u>0</u>	<u>17,681</u>	
Total Current Liabilities	493,553	693,252	
DEFERRED INCOME (Note 5)	285,000	0	
NOTES PAYABLE SHAREHOLDERS	0	73,540	
DUE TO OFFICERS AND AFFILIATE	<u>442,433</u>	<u>47,833</u>	
Total Liabilities	<u>1,220,985</u>	<u>814,625</u>	
SHAREHOLDERS' EQUITY			
Preferred stock, \$.001 par value; authorized 20,000,000 shares; issued and outstanding, 2,642,468 (aggregate liquidation preference of \$766,316)	2,643	2,643	
Common stock, \$.001 par value; authorized 200,000,000 shares; issued and outstanding 40,050,000	40,050	40,050	
Additional paid-in capital	2,263,195	2,263,195	
Accumulated Deficit	(1,738,210)	(1,806,900)	
Treasury stock, at cost (500,000 shares of common stock)	<u>(32,475)</u>	<u>(32,475)</u>	
TOTAL SHAREHOLDERS' EQUITY	<u>525,203</u>	<u>466,513</u>	
	<u>\$1,756,189</u>	<u>\$1,281,138</u>	

"See Accompanying Notes to Financial Statements"

I.A. ENTERTAINMENT, INC.
STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
December 31, 1991 AND 1990

	UNAUDITED <u>12/31/91</u>	UNAUDITED <u>12/31/90</u>
GROSS RENTAL REVENUES	\$400,618	\$562,121
GROSS SALES REVENUES	<u>6,348</u>	<u>12,747</u>
Total gross rental and sales revenue	<u>406,966</u>	<u>574,868</u>
CONCESSION COMMISSIONS	117,826	158,760
COST OF VIDEO AND AUDIOCASSETTES SOLD	<u>0</u>	<u>0</u>
Total concession commissions and cost of video and audiocassettes sold	<u>117,726</u>	<u>158,760</u>
Net rental and sales revenue	<u>289,240</u>	<u>416,108</u>
OPERATING EXPENSES:		
Concession and store operating costs	139,691	122,649
Videocassette library depreciation	122,269	141,731
General and administrative	<u>192,242</u>	<u>159,928</u>
Total operating costs and expenses	<u>454,202</u>	<u>424,308</u>
Operating (loss) income	<u>(164,962)</u>	<u>(8,200)</u>
OTHER INCOME (EXPENSE):		
Interest expense	(8,247)	0
Miscellaneous income	<u>153,133</u>	<u>13,825</u>
NET INCOME (LOSS)	<u>\$120,076</u>	<u>\$5,625</u>
NET INCOME PER SHARE OF COMMON STOCK	<u>\$ 0</u>	<u>\$ 0</u>
Weighted average number of common shares outstanding	40,050,000	32,900,000

"See Accompanying Notes to Financial Statements"

L.A. ENTERTAINMENT, INC.
STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED
December 31, 1991 AND 1990

	UNAUDITED <u>12/31/91</u>	UNAUDITED <u>12/31/90</u>
GROSS RENTAL REVENUES	\$1,373,352	\$1,805,204
GROSS SALES REVENUES	<u>18,396</u>	<u>46,203</u>
Total gross rental and sales revenue	<u>1,391,748</u>	<u>1,851,407</u>
CONCESSION COMMISSIONS COST OF VIDEO AND AUDIOCASSETTES SOLD	393,285	520,774
	<u>0</u>	<u>0</u>
Total concession commissions and cost of video and audiocassettes sold	<u>393,285</u>	<u>520,774</u>
Net rental and sales revenue	<u>998,463</u>	<u>1,330,633</u>
OPERATING EXPENSES:		
Concession and store operating costs	446,793	413,418
Videocassette library depreciation	313,970	426,849
General and administrative	<u>381,975</u>	<u>439,371</u>
Total operating costs and expenses	<u>1,142,738</u>	<u>1,279,638</u>
Operating (loss) income	<u>(144,275)</u>	<u>50,995</u>
OTHER INCOME (EXPENSE):		
Interest expense	(19,898)	(15,746)
Miscellaneous income (Note 5)	<u>290,076</u>	<u>16,576</u>
NET INCOME (LOSS)	<u>\$125,901</u>	<u>\$51,995</u>
NET INCOME PER SHARE OF COMMON STOCK	<u>\$ 0</u>	<u>\$ 0</u>
Weighted average number of common shares outstanding	40,050,000	32,900,000

"See Accompanying Notes to Financial Statements"

L.A. ENTERTAINMENT, INC.
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED
December 31, 1991 AND 1990

Increase (decrease) in cash

	UNAUDITED <u>12/31/91</u>	UNAUDITED <u>12/31/90</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 939,933	\$1,255,299
Cash paid to suppliers and employees	(979,619)	(835,994)
Interest paid	<u>(19,828)</u>	<u>(12,804)</u>
Net cash provided by operating activities	<u>(59,584)</u>	<u>406,501</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(298,350)	(468,596)
Proceeds from sale of assets	<u>65,282</u>	<u>37,200</u>
Net cash used in investing activities	<u>(233,068)</u>	<u>24,895</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable to bank	(82,037)	(47,362)
Payments on capital leases	(17,681)	(44,774)
Increase (decrease) in due to officers and affiliates	<u>394,600</u>	<u>69,007</u>
Net cash provided by (used in) financing activities	<u>2,230</u>	<u>(48,024)</u>
CASH, beginning of period	<u>11,000</u>	<u>49,063</u>
CASH, end of period	<u>\$13,230</u>	<u>\$1,039</u>

"See Accompanying Notes to Financial Statements"

L.A. ENTERTAINMENT, INC.
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED
(Concluded)

December 31, 1991 AND 1990

Increase (decrease) in cash

	UNAUDITED	UNAUDITED
	<u>12/31/91</u>	<u>12/31/90</u>

RECONCILIATION OF NET (LOSS) INCOME TO NET
CASH PROVIDED BY OPERATING

ACTIVITIES:

Net (loss) income	\$125,903	\$ 51,825
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	431,711	532,050
Gain on sale of video library cassettes & Auto	(6,103)	0
Misc. Income Related to Litigation Settlements (Note 5)	(283,973)	0
Increase (decrease) from changes in:		
Accounts receivable	(137,907)	(75,334)
Prepaid expenses	(15,693)	2,603
Trade accounts payable	(59,795)	(35,193)
Accounts payable, affiliates	(73,540)	69,007
Accrued expenses	(40,187)	(46,321)
Long Term Liability	<u>0</u>	<u>(92,136)</u>
	(327,122)	(177,374)

NET CASH PROVIDED BY OPERATING
ACTIVITIES

	<u>\$ (59,584)</u>	<u>\$406,501</u>
--	--------------------	------------------

"See Accompanying Notes to Financial Statements"

L.A. ENTERTAINMENT, INC.
NOTES TO FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 1991 AND 1990

1. Basis of Presentation

The accompanying financial information is unaudited. However, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim period.

The results of operations for the nine month period ended December 31, 1991 are not necessarily indicative of the results to be expected for the full year.

2. Earnings per share

Earnings per share have been computed by dividing net income by the weighted average number of shares.

3. Notes Payable, Bank

The Company entered into a Line of Credit agreement with an affiliated company in the amount of \$400,000. A portion of this was used to pay off the note to Key Bank of Puget Sound, all Capital Leases, as well as to settle some impending litigation.

4. Dividends Payable

During the three months ended December 31, 1991, the company declared dividends of \$28,607 on its preferred shares. Management anticipates that the dividend will be paid through the issuance of additional preferred shares.

5. Other Receivable

The Company is currently involved in a lawsuit with a former director relating to stock that was fraudulently obtained and sold. It is management's opinion that The Company will prevail in this litigation. Accordingly, The Company has provided for a receivable in the amount of \$590,000.00 (the cash realized from the sale of the stock in the approximate amount of \$500,000 has been interpleaded and is being held by the court pending the outcome of this case - \$90,000 has been accrued for the remainder of the stock that was canceled due to this litigation) and an allowance for litigation costs of \$200,000.00. The company has currently paid for all litigation costs and this figure is a conservative estimate for future possible costs. The net result of this total transaction is reflected as deferred income with an adjustment of the prior years costs in other income.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors which have affected the Company's financial position and operating results during the periods included in the accompanying consolidated financial statements.

Results of Operations

Nine Months Ended December 30, 1991 versus Nine Months Ended December 31, 1990

Sales and Cost of Sales:

Rental Revenues:

Gross revenues from rental transactions were \$1,373,352 for the nine months ended December 31, 1991 as compared to \$1,805,204 for the same period in 1990. This represented a 23.9% decrease in revenues for stores operating for the comparable period. This decrease in revenues is attributable to the consolidation of the concession base due to several Safeway closures and the recession.

Sales Revenues:

Gross revenues from sale transactions were \$18,396 for the nine months ended December 31, 1991 as compared to \$46,203 for the same period in 1990. These revenues were derived from the sale of used rental tapes and missing tape billings to the concessions.

Sales Growth:

The company has been aggressively seeking to expand its video rental concession base. To that end, it has targeted the Washington and Oregon supermarket chains for presentations. It is also seeking to implement sales programs in new concessions opened. The Company will also continue to explore opportunities to acquire other companies which operate video rental or compatible businesses.

Miscellaneous Income.

At March 31, 1991, certain accruals were set up to allow for potential settlement payments relating to impending litigation. Several of the impending law suits were settled for an amount less than the amount accrued. The reduced liability resulted in miscellaneous income for the period. (See Note 9) The company entered into an overhead sharing arrangement with an affiliate of the company resulting in additional miscellaneous income.

Operating Income.

The Company had operating loss of \$144,275 for the nine months ended December 31, 1991 as compared to an operating income of \$ 51,825 for the same period in 1990. The decrease in operating income was primarily due to the recession and the closure of some of the larger revenue generating locations.

Operating Costs, General and Administrative Expenses.

The Company incurred store and concession operating costs of \$446,793 for the nine months ended December 31, 1991 as compared to \$413,418 for the same period in 1990.

General and administrative costs were \$381,975 for the nine month period ended December 31, 1991, as compared to \$439,371 for the comparable period for 1990. This decrease was due primarily to decreased travel and legal expenses.

For the nine months ended December 31, 1991, the Company experienced an overall decrease of \$43,303 for salaries and related expenses as compared to the same period for 1990, as a result of the Company reducing its corporate staff and related expenses to more accurately reflect the support necessary for the existing business. However, audit and legal expenses have increased due to the companies successful efforts to settle impending litigation as well as expand its operations.

Three Months Ended December 31, 1991 versus Three Months Ended December 31, 1990

Sales and Cost of Sales:

Rental Revenues.

Gross revenues from rental transactions were \$400,618 for the three months ended December 31, 1991 as compared to \$562,121 for the same period in 1990. This represented a 28.8% decrease in revenue for the stores operating in the comparable period. As previously described, the Company involuntarily closed several higher revenue generating locations and opened a like number of new but smaller locations.

Sales Revenues.

Gross revenues from sale transactions were \$6,348 for the three months ended December 31, 1991 as compared to \$12,747 for the same period in 1990. Sales for the current period were derived principally from the Company's efforts to sell previously viewed video tapes in its Seattle retail location and missing movie billings to the concessions.

Liquidity and Capital Resources:

At December 31, 1991 the Company had a working capital surplus of \$142,056, as compared with working capital deficit of \$474,171 as of December 31, 1990.

For the nine month period ending December 31, 1991, the Company invested \$381,789 in inventory of new videocassette tapes for use in the Company's concession operations. This compares to an investment of \$484,842 for the same period in 1990. The decrease is due to a smaller concession base. Inventory is purchased as a direct percentage of rental revenues which also decreased, in turn leading to a decrease in total investment.

The Company is dealing with its tape suppliers on a cash on delivery basis, but is current in payments. The Company is trying to acquire trade credit.

At December 31, 1991 the Company had paid its Note to Key Bank in full as well as the Capital Leases to Republic Leasing.

The Company entered into a Line of Credit with an affiliated company in the amount of \$400,000 on July 16, 1991, which allows for draws at the Company's request. At December 31, 1991, \$400,000 had been drawn on this Line of Credit. The amount outstanding becomes payable plus interest at 12% on January 15, 1993.

Marutaka Acquisition

The company has entered into an agreement to acquire the shares of Marutaka, Inc. Ltd. and certain related companies. This agreement is subject to various conditions including the satisfactory completion of an audit.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings

The company has settled various litigations subsequent to year end namely:

1. Lieberman - the Company entered into a stipulated judgment in the approximate net amount of \$190,000, which required the company to make monthly payments to satisfy such amount. The Company made partial payments thereon, and settled this matter in July, 1991 by a payment of \$100,000.

2. East Texas Distributors - the Company settled the original claims of \$15,000 and \$10,000 respectively for \$15,000 (payable at \$500.00 per month) and \$7,000.00 which was paid in August, 1991.

3. Ingram - The Company settled the original claim of \$26,000 for \$20,000.00. \$10,000 was paid in August, 1991.

Item 2. Changes in Securities

(a) None

(b) None

Item 3. Defaults Upon Senior Securities

(a) None

(b) None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

March 24, 1992

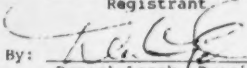
Date

March 24, 1992

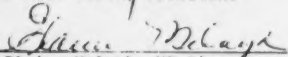
Date

I.A. ENTERTAINMENT, INC.

Registrant

By: 

Daniel Lezak, President

By: 

Elaine Melnyk, VP Finance